

# **UCLA**

## **California Policy Options**

### **Title**

Low Wage Manufacturing: A Neglected Policy Arena in California

### **Permalink**

<https://escholarship.org/uc/item/3fh283sw>

### **Author**

Wolff, Goetz

### **Publication Date**

1998-01-01

# LOW WAGE MANUFACTURING: A NEGLECTED POLICY ARENA IN CALIFORNIA

Goetz Wolff

## Summary

Although California's economy may have recovered from the early 90s recession and the post Cold War defense downsizing through expansion in technology, trade, and tourism, persistent problems remain with significant pockets of high unemployment as well as growth in working poverty and increasing income inequality. In the search for an expanding economy, most existing economic development initiatives seek to help create high wage/ high skill jobs and industries, while ignoring the need to upgrade low wage/ low skill one industries. Effective upgrading strategies exist to move firms to the high road of production—and a few local efforts are already in place. The state should seize the opportunity to assist and expand these efforts—or face the growing social problems that California's increasingly dual economy is creating.

## Introduction

High wage, high growth jobs are the desideratum of economic development in California these days. And with good reason. Our eyes are on the future and we see high technology industries and jobs increasingly relying upon technology. Whether it is multimedia, computers, advanced transportation, information technologies, or advanced business services, these are the industries that are held up as the models of the new economy that California is developing (Center for the Continuing Study of the California Economy, 1996; California Economic Strategies Panel, 1996; Center for the New West, 1996, Kotkin, 1997). Closely intertwined in most of these portrayals is a celebration of small firms as job generators and the entrepreneurialism which is attributed to immigrant business startups—which are not necessarily high wage operations. Nevertheless, many see the future of California in this mix of pulsating new businesses that are expected to fill in the gaps left by the loss of the auto, steel, and aerospace giants.

In part this policy focus on high wage, high growth industries is motivated by the concern about the sustainability of economic growth in California in the face of profound transformations in the state economy along with increasing evidence of widening inequality and working poverty. High-end jobs and industries are treated as the best path to pursue if we are to develop a prosperous California that will escape the residue of crumbling old industries and labor intensive manufacturing that is subject to severe trade competition.

It is in this context that prevailing state economic and training policy pays most attention to these emerging or “new” industries and seeks to encourage their growth. .

While this paper endorses such efforts as a part of economic development policy, a major gap in analysis and policy results:

-Most of the focus is on growth as an outcome rather than on ensuring quality growth which provides jobs with improved wages and benefits;

-The focus is on helping to grow emerging high wage industries which are expected to provide higher wage jobs rather than on seeking to transform established lower wage industries that continue to constitute a major employment base;

-Efforts to upgrade skills and wages rely on increasing public support for workforce development rather than on promoting more comprehensive industrial upgrading strategies which focus on promoting and facilitating changes in marketing, production, and human resource practices that lead to higher wage, higher skill jobs.

Furthermore, prevailing economic development initiatives fail to adequately take into account the diversity and geographic variation of the California economy. In the aggregate, California has emerged from the severe recession of the early 90's. However, it is evident that not all the growth jobs will be in these high wage, high tech industries. Furthermore, California's recovery has not been uniform statewide: Los Angeles, which accounts for almost one-third of the state's employment still lags significantly behind the rest of the state in job recovery.

Light manufacturing is an example of a sector that employs large numbers of people, and may well have the job openings suitable for some “welfare-to-work” participants. It is a significant sector whose concentration in particular regions of the state makes it worth considering for policy attention.

Before making a case for saving and upgrading low wage manufacturing, this paper quantifies the size and importance of the light manufacturing economy in Southern California and discusses the challenge posed by “low road” manufacturing practices. This is followed by a discussion of the obstacles faced by low wage manufacturing in order to be upgraded--as well as consideration whether upgrading is even a feasible and reasonable policy strategy.

The paper then reviews recent research that has assessed the feasibility of upgrading the low-wage manufacturing sector. A summary of the strategic framework for evaluating the upgradeability of an industry is presented, and then reports on a study of three Southern California light manufacturing industries: apparel, medical equipment, and packaging. (Gilbert, Kramer, Mitchell and Wolff, 1997). Apparel and packaging are what may be described as “established” industries. Medical equipment is more of an

emerging industry, although it relies on established industries like plastics and metal fabrication for its inputs. Overall, we found all three industries to have some potential for upgrading, although each requires a different set of interventions. Next, the paper briefly identifies concrete local initiatives such as the RLA (formerly, Rebuild LA) initiatives and the Southern California Edison approach. The paper concludes with some general policy proposals for comprehensive industrial upgrading strategies.

## **Light Manufacturing Matters: It Generates Many Jobs But They Pay Low Wages**

Light manufacturing is a significant and growing part of the Southern California economy. Los Angeles County has been going through a massive restructuring of its economy and a fundamental transformation of its workforce since the early 1980s. The number of low wage jobs, the majority of which are held by people of color, has increased dramatically. This trend has had serious impacts on the quality of life in the region, leading to increasing poverty, growing income polarization, and rising social tensions.

Although many analysts have attributed the growth of low wage employment to the replacement of high wage manufacturing jobs by lower wage service jobs, Los Angeles County continues to have a large number of manufacturing jobs and is the predominant manufacturing center in the nation, with about 650,000 manufacturing jobs in 1996. However, the composition of manufacturing jobs is changing: while the number of better paid high technology and heavy manufacturing jobs has been declining, employment levels in lower paying light manufacturing industries have remained steady or increased. Light manufacturing in Los Angeles has been growing, while the remainder of high technology manufacturing and heavy industry continued to decline. (See Chart 1.) Los Angeles County alone accounts for over 40% of all the nondurable (light) manufacturing in California, significantly higher than the LA's overall 30% of statewide employment. (See Chart 2.) And in High Technology employment, Los Angeles actually is below the statewide average. Eight percent of all Los Angeles employment is in light industry—far above the 4% of high technology or the 4% accounted for by motion pictures. (See Chart 3.) Apparel is the most prominent of the nondurable sectors, however, large numbers are also employed in printing, food products, plastics and chemicals. (See Chart 4.) Although formally classified in durables, the furniture industry is another light industry sector with significant employment in Los Angeles.

The state's Labor Market Information Division expects continued job growth in these industries. Between 1993 and 2005, California's employment in light manufacturing is projected to increase by 16.5%, at the same time that durable manufacturing is projected to grow by only 5.4%. Employment in apparel is expected to grow by 28.8%, textile by 27.3%, paper by 11.7%, and plastics by 16.2%. Overall, a total of 114,900 jobs are expected to be created in nondurable goods establishments during this period.<sup>1</sup>

The production workforce in light manufacturing is made up of immigrant and native born minorities--many of whom have limited English skills. Light manufacturing industries play a crucial role as job providers for a large, diverse concentration of immigrants and native minorities and thus serve a traditional role as transition industries for workers who aspire to a better life for themselves and their children. About 3/5th of light manufacturing employees are ethnic minorities, with textile, apparel, plastics and furniture having the highest proportions. (See Chart 5.)

Many manufacturers have found themselves stuck on a low road to industrial competitiveness, leading to the creation of numerous low wage jobs. Although employment in Southern California's light manufacturing industries is projected to grow over the next several years, their longer term competitiveness may eventually be threatened by the competitive strategy they have pursued. Like firms in other sectors, light manufacturers face significant pressures to respond to global competition, to function in rapidly changing retail and distribution environments, and to meet ever higher customer demands for quality, speed, and flexibility. They also face numerous human resource challenges, including a more ethnically and culturally diverse workforce and a majority of employees who speak limited English.

Light manufacturers tend to follow one of two roads to competitiveness. Most firms have ended up on a "low road" strategy which involves reducing wages, deskilling operations through automation, and producing high volumes of low quality products. As a result, manufacturers' demand for skilled workers or for training and technology assistance programs to upgrade their existing workforce has not been high. Moreover, manufacturers' pursuit of the 'low road leads to unskilled, low wage jobs for their employees, and an accompanying decline in the overall quality of life in the region.

The data confirm this picture: the average wage for production workers in light manufacturing was only \$10.61 an hour in 1996, significantly lower than the average wage of \$13.51 an hour for production workers in durable goods industries. Several light manufacturing industries pay even lower wages: production workers in apparel make an average of \$7.55 an hour, while in textiles they average \$7.73 an hour and in plastics they make \$9.78 an hour. And these figures may be quite inflated, especially in the apparel industry where significant numbers work off the books. Particularly striking is that, according to official Bureau of Labor Statistics wage data, real nondurable wages have dropped over 11% since 1988--far more sharply than the drop in durable manufacturing wages at about 5%. (See Chart 6.)

It should be emphasized that in many cases light manufacturers do not actually "choose" the low road, since they may be unaware that a high road alternative is available. Many of these manufacturers are small businesses that lack the time or the money to invest in training themselves or to pursue public support for training.

Disincentives to training may also emerge if employers who invest in training see workers leave for other companies offering higher wages. This environment leads to manufacturers being stuck on a low road to industrial competitiveness, leading to low wage jobs. Unable to pursue a “high road” involving production for markets with high demands for quality, speed, and flexibility, many companies have positioned themselves for “low road” markets, for which they produce high volumes of low quality products or move their production offshore. This path leads to low and declining wages for production workers.

## **Upgrading Provides An Opportunity for “Low Road Firms” to Move to A Higher Path**

Industry upgrading refers to firms repositioning themselves for product markets that require better technology, reorganized workplaces and better trained production workers. The outcome for upgraded companies is not only an increase in their competitiveness. They are also able to provide better jobs for their employees.

In recent years, manufacturing assistance and network promotion initiatives have become increasingly popular among U.S. and European economic development policymakers. In the U.S., many of these initiatives were designed to help intermediate goods producers respond to the decline of key client industries or to help them meet the needs of clients who are asking for more from their suppliers.

In the Midwest and Northeast, for example, initiatives like the Berkshire Plastics Network, the Connecticut Metalworking Network, the Metalworking Connection in Arkansas, and the Greater Syracuse Metalworking Industry have focused on helping metalworking and plastics companies deal with the loss of key defense industry clients who have downsized, shut down, or relocated through joint marketing and employment training efforts. Others like the UAW Region 1 Auto Parts network, have helped these parts producers better serve auto industry clients who are placing higher quality or speed demands on their clients. In the Pacific Northwest and the Northeast, initiatives like Furniture New York, Woodnet in Washington, and the Kentucky Wood Manufacturers Network have helped wood industry companies do more value added production. And in New York City, the Garment Industry Development Corporation (GIDC), a joint industry-government-union initiative developed in response to a decline in New York apparel industry, has been helping apparel manufacturers with exports and employment training.

## **A Strategic Framework to Guide State Upgrading Policy**

To help evaluate the potential for upgrading manufacturing industries, a set of three analytical components need to be considered: (1) the market characteristics of the industry to determine where upgrading opportunities might be possible, (2) the structural

characteristics of the industry to see how upgrading might happen in companies who pursue these markets, and (3) the identification of existing local initiatives in order to assess how state policy can play a role in the promotion of upgrading. Assessing upgrading potential must start with a market analysis in order to understand an industry's competitive strengths, opportunities and challenges. This requires an examination of broad market trends that affect demand for products. In the medical device industry, for example, health care restructuring is having a large impact on medical device manufacturers and their suppliers. For apparel producers, department store consolidation and downsizing has also had profound effects on the entire production chain.

In addition to looking at broad market trends, market niche analyses examine existing and emerging markets in order to understand where upgrading is most promising. Frequently, there are different demands for different markets. Some markets may be more time-sensitive, more quality-conscious, more price-sensitive, or more subject to frequent shifts in demand than others. In the food processing industry, for example, production timing and price considerations are very different for canned goods than for fresh refrigerated foods. Similarly, pharmaceutical companies set much higher quality standards for their packaging suppliers than do bakeries.

Understanding the dynamics of various market niches that manufacturers serve leads to an evaluation of a sector's upgradeability. The following list points to several market niche traits whose presence would indicate higher promise for upgrading:

1. Scale--Significant numbers of companies and employment in the region.
2. Growth potential--Stable or growing product demand
3. Local ties--Strong producer linkages to the region
4. High and increasing quality requirements--Markets where customers demand high levels of precision, high quality standards, quality monitoring, and process documentation.
5. High and increasing speed requirements--Shorter lead time on orders or shorter cycle time.
6. High and increasing flexibility requirements--Small batches due to either Just-in-Time production and delivery requirements and/or high product variety.

The analysis of markets points to suitable industries and niches, but another level of analysis is needed to identify the structural barriers and opportunities for upgrading: firms' production practices, their human resource strategies and the demand for skills and training that different production schemes require. Different production practices need different types of front line worker skills. While not necessarily comprehensive, the following are the types of practices which suggest that upgrading is a possibility:

- Introduction of new technology which requires new skills.
- Forms of work organization like team production that require increased production worker skills

- High or increasing quality standards by the firm or its customers
- High or increasing demand for quality performance analysis or process documentation (like ISO 9000, Statistical Process Control (SPC), etc. ) which require increased process understanding, inspection and documentation by production workers.

Human resource practices that are usually present in high road companies include the following:

- Compensation: Wages or benefits above industry averages; pay tied to skills
- Workforce characteristics: Low employee turnover, hiring from vocational education programs
- Occupational structure: Flatter job classification, promotion from within.
- Training practices: Training to facilitate promotion; training in conjunction with increased responsibility; formalized on-site training; incentives to workers to pursue off site training

Overall, this structural analysis helps to point out the particular shape that high road practices take in different industries, and the market conditions required to create and sustain them. In apparel, for example, modular sewing is a team-based production strategy appropriate when frequent process changes and small production runs are required. In injection molded plastics, however, team based production is not feasible for meeting the same production demands. However, companies serving high quality, high speed, high flexibility markets like certain medical device niches can become more competitive by training front line workers better to understand the whole manufacturing process and to assume more responsibility for quality monitoring and process improvement.

The final component in this methodology is to evaluate what role state public policy can play in the context of existing local public and private initiatives. The approach is based on the belief that policymakers have at their disposal a number of policy levers that can influence upgrading. Public policies can impact companies in three areas:

- Competitive environment, by strengthening industry associations or promoting manufacturer-supplier partnerships;
- Production practices, by providing assistance to companies that want to change their technology or work organization;
- Human resource practices, by providing assistance to companies to train front line workers.

In contrast to traditional public efforts to upgrade skills and wages which focus on providing direct training to workers, a broader contextual framework is needed. In some

industries focusing policy attention on improving manufacturer-contractor relations or on helping companies transform their production practices can have a greater impact on worker skills and wages.

## **Findings from An Examination of Selected Light Industries**

As part of a study on light manufacturing and upgrading (Gilbert, Kramer, Mitchell and Wolff, 1997), exploratory research was conducted in seven industries which resulted in the selection of three for deeper analysis---apparel, medical devices, and packaging. These three showed the strongest possibility for upgrading due five common traits:

Apparel, medical devices and packaging all had a local presence with large employment and regional ties that warrant intervention. All three industries accounted for a relatively large proportion of Southern California's light manufacturing employment base in the mid 1990s: Apparel had 128,100 employees, the medical device sector 18,198, and packaging 15,370 employees as of 1995. All three industries are tied to the region, because of the need for proximity to customers, client industries, or suppliers due to high transportation cost or quick response needs.

Competing upgrading and downgrading pressure on manufacturers was characteristic of all three sectors. Buyer consolidation drives upstream pressure: consolidation trends in apparel retailing and in health care delivery are putting pressure on downstream apparel and medical equipment industries. In packaging, consolidation in the grocery industries may eventually have a similar impact on food manufacturers and on their packaging suppliers. Consolidation is leading to two main forms of downstream demand on manufacturers: increasing price pressure, as large buyers gain leverage over their suppliers; and increasing demand for quality, speed, and flexibility as these buyers rationalize relations with suppliers, set higher performance standards, and seek out more partnerships with suppliers. The net effect is contradictory pressure for upgrading and downgrading.

Government regulatory pressure may result in changes that motivate upstream players to develop stronger relationships with suppliers. In apparel, growing regulatory pressure on retailers and manufacturers from federal and state labor agencies is forcing these companies to pay closer attention to garment contractor labor practices. Food and Drug Administration (FDA) standards for Good Manufacturing Practice (GMP) along with the threat of product liability litigation are compelling medical device manufacturers to develop closer relationships with their intermediate parts suppliers. And in packaging, increasing consumer concern for food and drug safety is increasing demand for high quality packaging.

In each industry there were market niches where scale, growth potential, quality, speed and flexibility demands lead to opportunities for upgrading. In apparel, "safe niches" like school and public agency uniforms along with fashion denim and mid to better-priced women's outerwear are the most upgradeable. In medical equipment, high quality disposables is the niche with the most potential. In packaging, both the food and medical/pharmaceutical packaging segment seems promising, given the growth of ethnic foods and of medical and pharmaceutical companies in the region.

Some companies had already begun upgrading themselves, and this lead to improved jobs for production workers. There was significant interest in adopting ISO, SPC (statistical process control) and other quality improvement monitoring methods. It was in these companies where management indicated an interested in training and upgrading its labor force.

The apparel sector faces the greatest opportunities and the greatest challenges for upgrading. There are opportunities for upgrading low wage production jobs at sewing shops, and a few companies use upgraded practices already. However, their improved capacity cannot match low-wage competitors, especially the many illegal companies in Southern California. Increased regulatory enforcement has brought industry and public attention to the problem. Through a combination of incentives, support of strategic manufacturer-contractor industry partnerships, and tailored program criteria, policy makers can play an important role in fostering conditions where upgraded companies will thrive and production job quality will improve.

The medical device industry is booming, has a relatively high public and policy profile and increasing industry organization, but the extent of low road practices within supplier industries like plastics has not yet been addressed. The challenge for policymakers is to draw attention to the problem of low wage employment at input suppliers, and then to bring industry players (including a number of emerging regional medical/biomedical industry associations), together to find ways to promote upgrading of these suppliers through stronger partnerships.

The packaging industry is a sizable but relatively low profile industry, in part because of the lack of strong local industry organization. As in medical devices, the widespread reliance on low road practices is not generally recognized. Public and policy awareness of the presence of the industry in the region is low, and there is not a local packaging association although there are several paper and plastics associations who have many packaging companies as members. There is, however, strong demand from manufacturers for assistance with just in time production, ISO certification, SPC implementation, and frontline worker training. Policymakers should help meet this demand, in addition to helping develop stronger regional industry awareness and organization.

## The Policy Environment: Emerging Local Industry Initiatives

As the preceding section suggests, there are opportunities for upgrading in light manufacturing in Southern California. A growing number of local industry initiatives have emerged in Southern California within the last several years, mostly to promote industrial competitiveness. Local public and private actors have initiated a number of projects to support regional manufacturing industries. However, most of these initiatives are focused on supporting the growth of these industries rather than on promoting and facilitating upgrading. The major efforts include:

- Southern California Edison's Apparel Industry Roundtable
- The UCLA North American Integration and Development (NAID) Center's Apparel Initiative
- LA's Project on Manufacturing Networks [Furniture, Food Processing, Metalworking/Industrial Machinery, Textiles, and Toys] and the continuation by the Community Technologies Development Center with its Apparel initiative.
- The Southern California Biomedical Council
- The Local Initiative Support Corporation's (LISC) Health Sector Initiative
- UCLA's Manufacturing Matters Project [Food, Plastics, and Apparel]
- The Mayor's Industry Roundtables in Printing, Fashion, and Multimedia

Representatives from all of these initiatives recently came together for a conference at the UCLA School of Public Policy and Social Research on June 20, 1997 to discuss ways to promote industrial networking in Southern California (Wolff and Zabin, 1997).

One point that came through clearly at the conference was that state support for upgrading in these industries is fragmented and limited. There are very few government programs which explicitly encourage and support manufacturers' efforts to pursue the high road, especially programs which support training for incumbent workers. Most state economic development and employment training policy is based on the assumption that some sectors are inherently "low wage". Therefore policymakers assume they should support the growth of "high wage" sectors rather than try to transform "low wage" ones. The largest federal training program—the Job Training Partnership Act – has been designed to address the economically disadvantaged, youth, unskilled adults, and dislocated workers, rather than the incumbent workforce. Vocational education and manufacturing assistance programs at community colleges have declined over the last twenty years, although there has been a renewed interest in reviving and revamping these programs.

State involvement in these initiatives in these industries is limited. The main training funder for incumbent workers in California is the Employment Training Panel (ETP). Although the ETP targets manufacturing firms for training assistance, a

disproportionate share of its resources go to durable goods manufacturers. According to a report by the National Center for Research in Vocational Education, five heavy manufacturing subsectors (transportation equipment, electronic/electrical equipment, instruments, fabricated metal products, and industrial machinery/ computers) received 39.5% of all ETP allocations in 1991 and 1992. This amount was far greater than their 9.9% share of statewide employment. In contrast, three nondurable goods sectors (food, printing/ publishing, and paper) received 3.6% of all ETP allocations and provided 3.6% of all employment statewide. Apparel, which is the largest manufacturing sector in Los Angeles, has received only one or two grants over the last several years.

The state's Economic Strategies Panel is a step in the right direction in that it seeks to draw attention to the various industries that constitute the economic strength of the state—but, once again, the focus tends to be more on the “attractive” growth industries than on the low wage light manufacturing sector. In addition, the Panel is limited in its resources, so it must rely upon public relations and networking rather than implementing specific policies.

## **Policy Principles for Comprehensive Industrial Upgrading Strategies**

Local initiatives that promote upgrading in light manufacturing deserve state support. But before outlining specific recommendations on what should be done, it is worthwhile to propose some principles to inform policymaking in this area. Four principles for state policy action should be considered. First, there is a need to attend to upgrading low wage jobs and industries, and not just promote the growth of high wage industries or train people for high wage jobs. Of course, high wage jobs must be supported and developed, but there are practical limits. Many high wage industries may grow well unaided by policy. And the problem of training people for high wage positions is that there are usually far more workers who want to move up than there are better paid positions. Given the limits of these approaches, policymakers also need to promote upgrading of low wage jobs and industries, given their share of regional employment and the slim likelihood that job quality will change without policy intervention.

Second, there is a need to build on existing public and private local initiatives and institutions, particularly given the proliferation of manufacturing industry initiatives in Southern California. State policymakers should participate in these local initiatives and push for broader support of labor force upgrading.

Third, with the proliferation of industry targeting efforts, there is a need to focus on coordinating and leveraging existing resources to promote upgrading rather than on creating new programs. Many programs and approaches already exist that could be adapted to specific industry contexts. Strategic reassembling and brokering of existing programs makes more sense than creating new separate programs. Such an approach is more cost effective and helps prevent further policy fragmentation.

Fourth, upgrading efforts should not be held up to the standards of the hype that permeates too many such undertakings. It is necessary to approach upgrading with reasonable expectations for results from such initiatives. The impact of upgrading on wages, benefits and worker advancement may not be immediately noticeable. However, policymakers need to consider the long term benefits of changes in management attitudes toward front line workers. And they need to consider the long term impact of increased skills on production workers' performance in the labor market. Setting an industry on an upgrading path can have long term economic benefits even if it does not yield immediate results.

## **Key Areas for Upgrading Intervention**

Six major areas for policy intervention to promote upgrading can be identified: promoting regulatory enforcement, supporting industry associations, strengthening manufacturer-supplier partnerships, providing public incentives contingent on upgrading efforts, providing work reorganization and technology assistance, and providing training assistance. First, it is essential to enforce labor laws to create a level playing field where upgrading can take place. This is especially critical for apparel, where the large underground economy drives down standards for the entire industry.

Strong industry associations can be critical institutions which help companies collectively meet challenges and undertake upgrading. Whenever possible, state policymakers should work in partnership with these associations in order to develop their capacity to act, or to create such associations—as has been the case locally with the California Fashion Association. Manufacturer-supplier partnerships can help support upgrading, especially when the larger firms support upgrading at smaller suppliers who do not have the resources or information to do so themselves. The danger is that the larger firm may make the smaller ones “captives”, as has been the case in some plastics relationships.

Tax, trade, and development incentives could also be used to encourage partnerships that lead to upgrading. Enterprise zone programs are an example of tax incentives. Good contractor relations by manufacturers could be used as a condition for program eligibility to obtain loans. For example, the ETP currently stipulates that certain levels of hourly wages and employee benefits be met in order to be eligible for the ETP grants. The latter can backfire if it excludes low wage employers who are seeking to upgrade towards higher wages.

The provision of assistance for adopting work reorganization and new technologies is a critical component, especially for smaller firms that have limited resources. There are a number of existing resource centers that offer business and technical assistance programs and/or centralized licensing and permitting functions. The California Manufacturing Technology Center (CMTC) at El Camino College is one such center funded by the U.S. Department of Commerce. It provides technical assistance to

small and medium-sized manufacturers, emphasizing aerospace industry suppliers. Staff engineers conduct manufacturing audits. The Center assists businesses in accessing other public agencies' programs for financing and workforce development and works closely with community colleges.

Currently, LA Trade Tech, with funding support by Southern California Edison, is offering a set of courses offered by the Textile Clothing Technology Corporation (TC2) which are designed to upgrade basic manufacturing processes in the apparel industry. Another effort that is being proposed is to develop industry incubators which may provide for the sharing and development of improved production practices among entrepreneurial start-ups and young firms.

One-stop centers could have either an industry focus or seek to unify diverse agencies' services under the same roof. The California State Job Coordinating Council's one-stop career centers is bringing together the several dozen job training and placement programs offered in the state. A one stop permitting and licensing center is being tested in the City of Los Angeles in order to improve regulatory compliance in the apparel industry.

Direct provision of training assistance is the traditional way to support upgrading--and it is a method that is often appropriate. There are a several key programs in California. The Employment Training Panel provides grants for workplace-based, employer-specific training. Some community colleges offer fee-based customized training for employers or administer ETP grants to for targeted training needs. They may also have industry-specific curricula, such as Cerritos College's plastics program or Los Angeles Trade Tech's Fashion Center. Recently LA Trade Tech, in conjunction with RLA obtained major funding from IBM to establish a computer lab for apparel industry related training.

There is a danger that the various forms of industry upgrading become generic templates that are applied to all industry sectors. It is crucial to be aware that each industry (and industry subsector) may have particular characteristics and dynamics that require distinct policy actions to successfully address industry upgrading. In short, there are four main reasons why a "one size fits all" approach does *not* work:

1. *Industry development* varies - a sector may be emerging, growing, mature, or declining.
2. *Market dynamics* vary widely from one industry subsector to another, driving different industry behavior and practices
3. *Sector norms and averages* vary - comparing diverse industries to a universal standard of evaluation for factors like wages or technology use ignores the quite different realities of unique market circumstances
4. *Industry cultures* are specific to individual sectors - their varying perceptions and behaviors imply non-uniform responses to policy incentives.

With these factors in mind, industry initiatives can be sensitive to the complexity of industry dynamics.

## Possible Challenges to Pursuing Industry Upgrading

The difficulty with proposals such as this one to focus on upgrading low-wage manufacturing is that policies tend to challenge existing ways of doing things, or they may be perceived as irrelevant or redundant. Thus the following section seeks to briefly address challenges to pursuing an upgrading strategy.

A frequent concern with industry upgrading is that the whole concept of targeting specific industries is unfair. But for years, *de facto* policy favoritism of other industries, such as aerospace, electronics, and transportation, has fostered the growth of these sectors. Statistics presented in this paper and elsewhere show the significant employment base and economic contribution of low wage manufacturing industries in California. There are many industries whose scale warrants policy attention. Why not devote attention to the numerous firms and working poor who have the most to gain from the upgrading that a targeted policy action could inspire?

Another area of concern is the challenge of welfare reform in a period of limited public resources. It may be that the state should focus on finding jobs for former welfare participants who are entering the workforce, rather than worrying about upgrading. However, given the growing problem of working poverty in California, the state needs to do more than just get people into jobs. Otherwise welfare recipients will merely be shifted into work at poverty wages.

A frequent critique of industry assistance such as is proposed here is that the state might end up subsidizing training that firms would do on their own. While this point is resonant with both free marketeers and progressives who oppose business subsidies, the findings based on employer responses suggests that employers are willing and able to provide company specific and some industry specific forms of training. Few companies, however, have the resources to provide training in broad skills that give workers more power in the overall labor market. To avoid doing training that employers would do already, and to focus on training that does the most to increase workers power in the job market, state agencies should focus on broad skills, including vocational English, shop math and basic statistical concepts, problem solving techniques, communications and team work skills. Similarly, training in broad industry concepts, like garment construction concepts, plastics and materials technology, or printing process knowledge is also a place where the state could play a role.

Another area of concern, based more in the area of implementation, is concerned with the bureaucracy that could emerge if criteria for other state assistance to companies

is contingent on a company's commitment to (or history of) training front line workers. Might not the whole system become an enforcement bureaucracy that gets bogged down in tracking and documenting company training efforts? Though the state may prioritize awards of other business incentives to companies who invest in frontline workers, that practice need not necessarily prevent other firms from accessing those incentives. Firms could apply for assistance with training as well as financing for equipment or other assistance in a combined application or through a single agency, thus reducing bureaucratic tangles.

## Conclusion

While it may seem an obvious policy *not* to turn our backs on those low wage manufacturing industries that provide jobs for large numbers of the California labor force, there is currently no such policy commitment. As this paper notes, these manufacturing industries provide significant employment opportunities for many immigrants and minorities in California and thus have significant economic development impacts for those areas of the state with significant concentrations of light industries--particularly in Southern California.

An examination of several of the low wage sectors suggests that there are upgrading opportunities which would result in the need for a better trained, and hence--in the longer run--better paid labor force. A crucial point of this policy review is that too often upgrading efforts focus only on the supply side, i.e., providing upgraded training for workers without a direct regard to the structure of the industry: production processes, markets, and even global production strategies. Another policy caveat that arises from the examination of the local initiatives is a too-ready reliance on, or belief in, immigrant entrepreneurship and the presumed job growth that is associated with small enterprises. Plans to create incubators for "growing" light industry firms may end up doing little more than reproducing and perhaps expanding the demand for a low wage labor force unless a conscious upgrading policy is an integral part. Here, too, in the business incubator initiatives it is essential to incorporate a policy commitment to the formation of a different type of workplace that generates more skilled jobs.

Clearly, the opportunities for upgrading low-waged industries in California are available. A number of mostly local initiatives are underway, but there is a lack of overall vision about the importance of upgrading low-wage industries that provide so many jobs for California residents. New programs are not so much needed as a clearer analytical vision and a readiness to focus already available resources and programs.

## Endnotes

<sup>1</sup> Employment Development Department, Projections of Employment for California, September 1996 (LMID Web Site: <http://www.calmis.cahwnet.gov/htmlfile/subject/indtable.htm>).

## References

California Economic Strategies Panel. (1996) "Collaborating to Compete in the New Economy: An Economic Strategy for California." Sacramento: California Trade and Commerce Agency.

California Employment Development Department, Labor Market Information Division (1996). Projections of Employment for California, September 1996 (LMID Web Site: <http://www.calmis.cahwnet.gov/htmlfile/subject/indtable.htm>).

Gilbert, Jean; William Kramer, Daniel J. B. Mitchell, and Goetz Wolff. (1997) "State Policies to Promote Industrial Upgrading for Low Wage Manufacturers." A Report for the California Policy Seminar. Los Angeles: UCLA, School of Public Policy and Social Research (SPPSR)

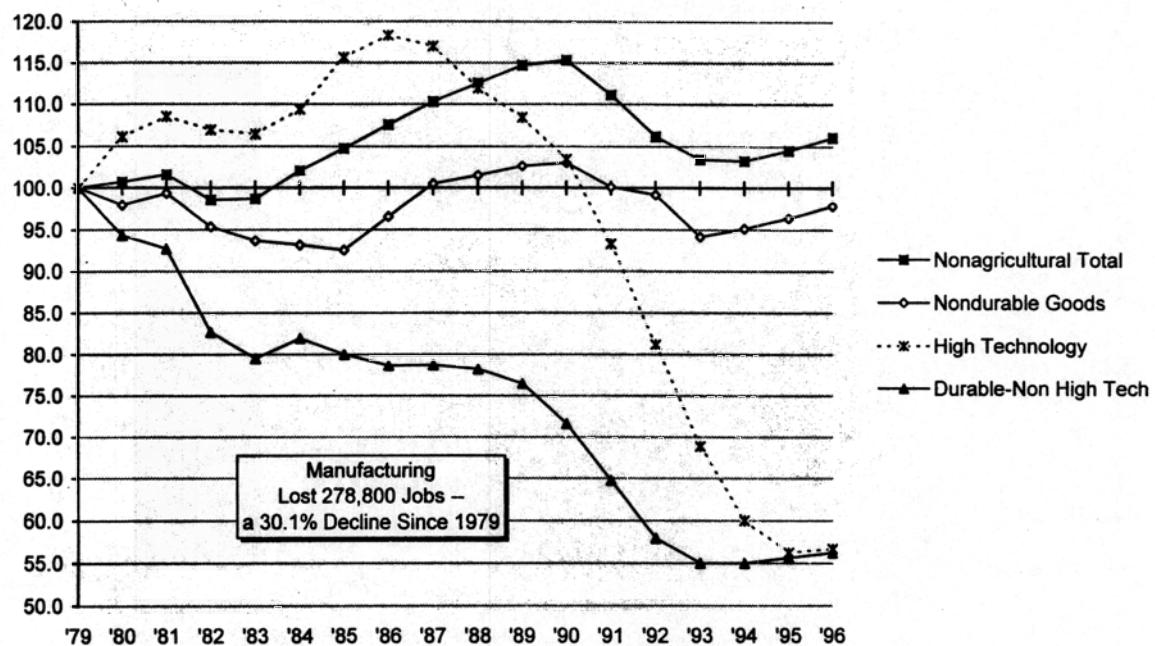
Kotkin, Joel. (1997) "Southern California in the Information Age." Malibu and Claremont: Pepperdine University and La Jolla Institute.

Kotkin, Joel and Stephen Levy (1996) "California: A Twenty-First Century Prospectus." Ontario and Palo Alto: Center for the New West and Center for the Continuing Study of the California Economy.

Wolff, Goetz and Carol Zabin (1997) "Manufacturing Matters: A Sectoral Approach to Combating Low Wages in Los Angeles." Report to the Haynes Foundation. Los Angeles: UCLA Lewis Center.

CHART 1

Relative Employment Growth in Manufacturing, 1979-96  
Los Angeles County, 1979 Employment = 100



Data Source: EDD Annual Wage and Salary Report (1996 Benchmark).  
[High Tech lost 151,100 jobs—51.1%—since its peak in 1986;  
Basic Durable Manufacturing lost 166,300 Jobs—43.8%—since 1979]

CHART 2

Los Angeles Has a Much Larger Portion of Nondurable Employment  
Than Other Manufacturing Segments in California - 1996  
(LA Accounts for 29.8% of All Employment in CA)

Source: EDD, 1996 Benchmark. © Goetz Wolff

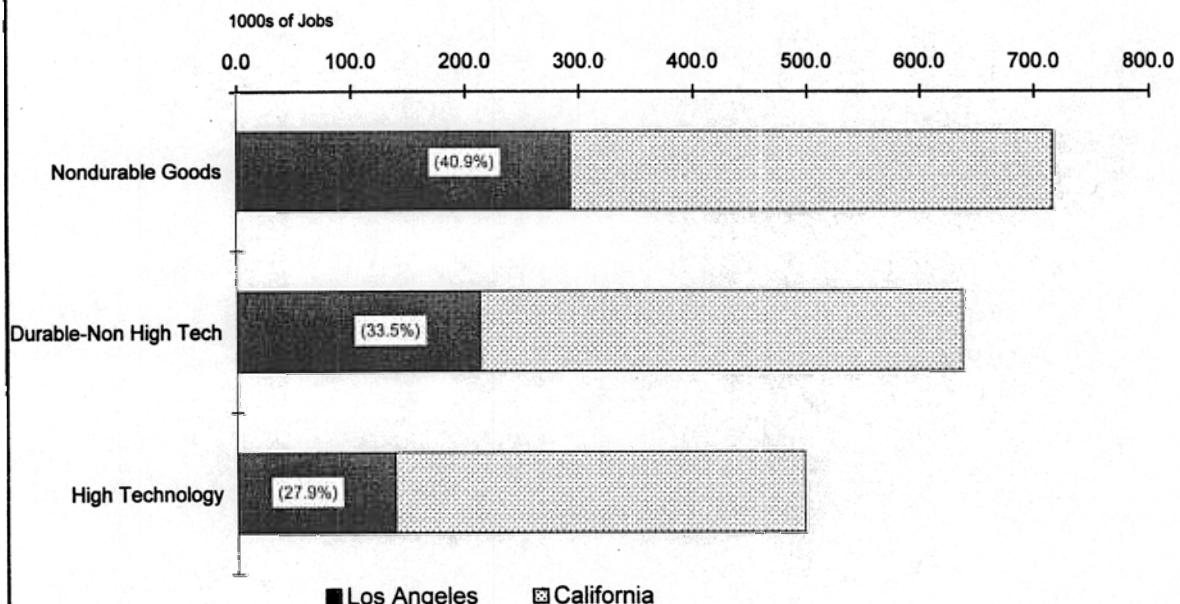


CHART 3

Employment Distribution by Major Sectors  
Los Angeles County, 1996

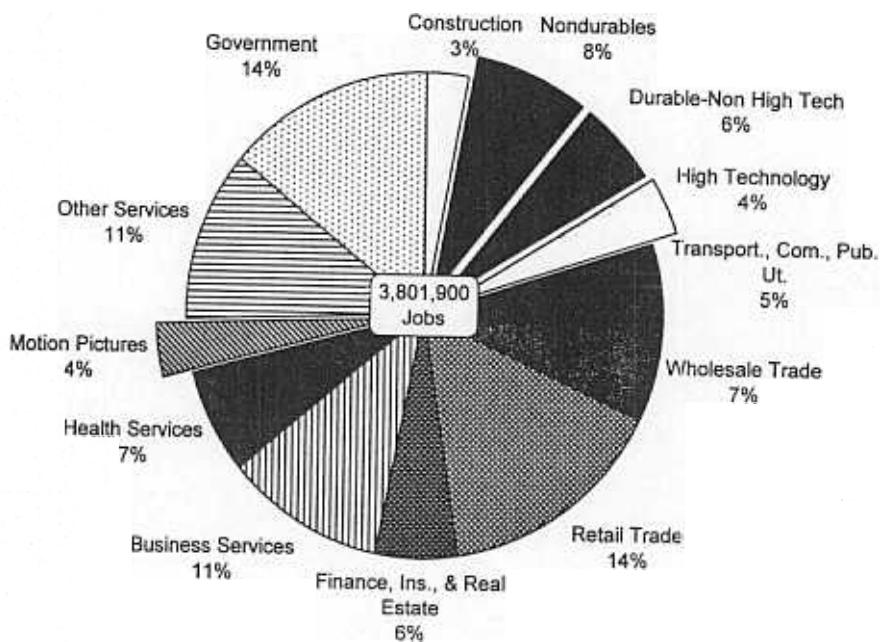


CHART 4

Employment Distribution by 2-Digit Manufacturing Sectors  
Nondurables and Durables, Los Angeles and California, 1996

1000's of Jobs

Source: EDD, 1996 Benchmark.

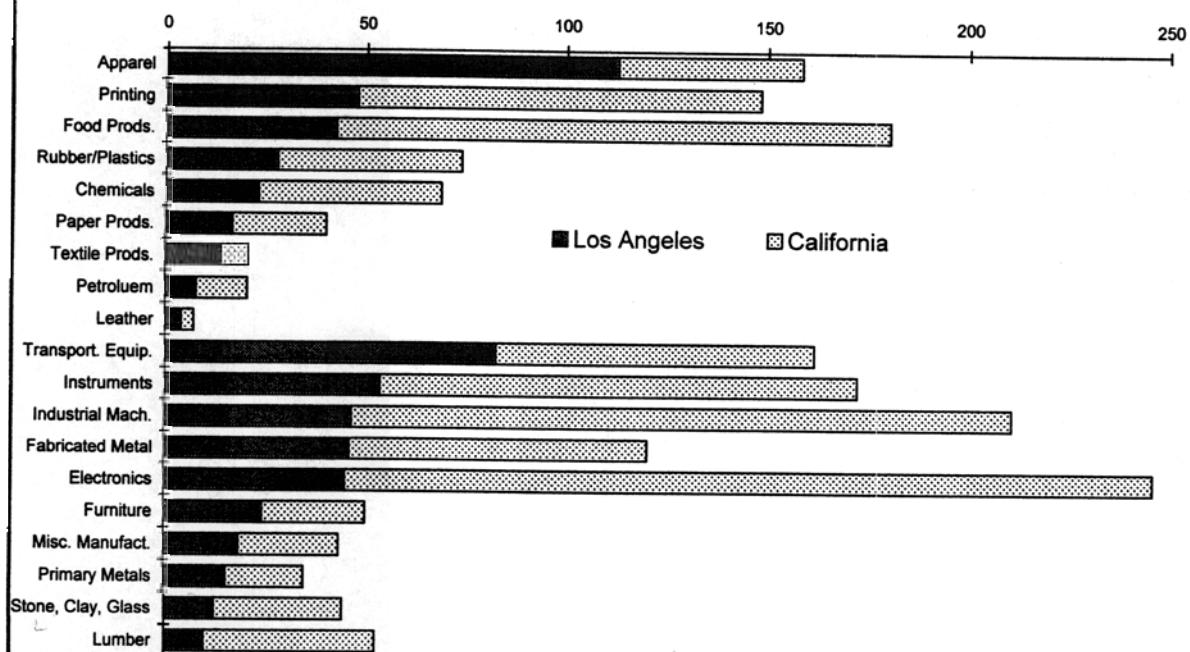


CHART 5

Minorities Predominate Light Manufacturing  
Los Angeles County, 1990 Census

Source: Bureau of the Census, STF-4

■ Latino ■ Afro-Amer ■ Asian □ White NonLat

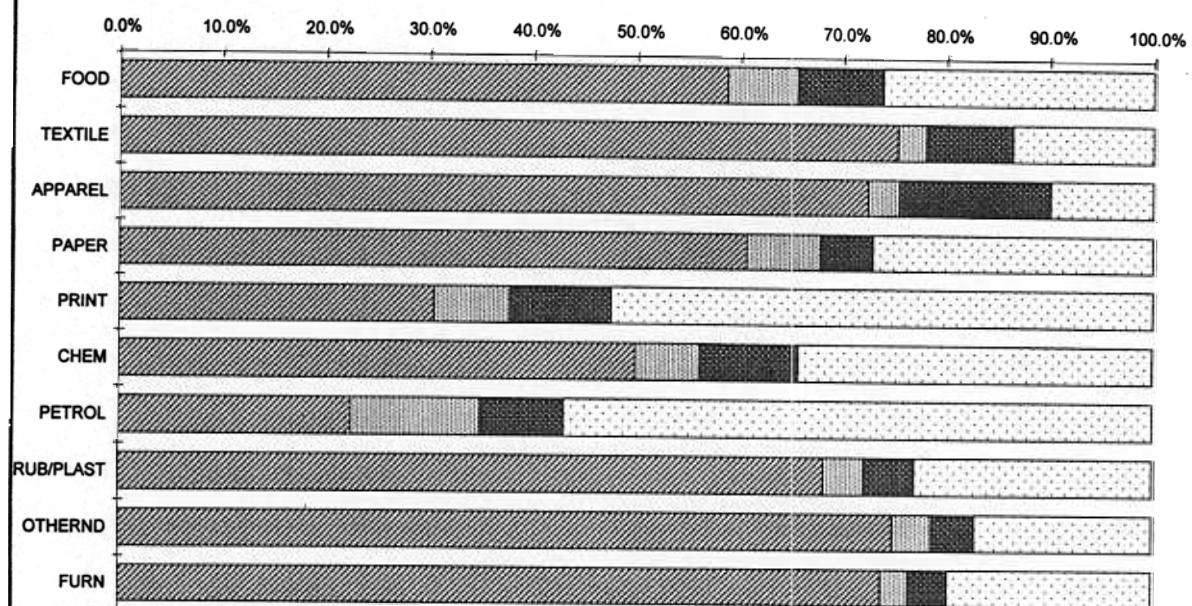


CHART 6

Nondurable Wages Declined More than Durable in LA County  
Constant 1996 Dollars, 1988-96

Source: U.S. Bureau of Labor Statistics.

State and Area Unadjusted Series Report (<http://stats.bls.gov/cgi-bin/srgate>)

